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FOR SECRETARY VANCE FROM AMBASSADOR CASTRO

E.O. 11652: N/A
TAGS: SHUM, EFIN, AR
SUBJECT: EXPORT IMPORT BANK LOANS TO ARGENTINA

1. IT HAS BEEN REPORTED TO ME THAT ON THE ADVICE OF THE DEPARTMENT THE EXPORT-IMPORT BANK IS CONDUCTING A HOLDING OPERATION ON ALL DIRECT LOANS, AND IN SOME CASES EVEN GUARANTEES, TO ARGENTINA, IN THE BELIEF THAT THIS WILL SOMEHOW FURTHER OUR HUMAN RIGHTS OBJECTIVES IN THIS COUNTRY. I CONSIDER THIS POLICY POORLY TIMED AS REGARDS U.S. TRADE AND AVIATION INTERESTS IN ARGENTINA AND IRRELEVANT TO THE END SOUGHT.

2. A CASE IN POINT IS THE PENDING \$150 MILLION SALE OF BOEING AIRCRAFT TO AEROLINEAS ARGENTINAS, INVOLVING DIRECT EXIM LOANS ON THREE 727'S AND PARTIAL GUARANTEES OF COMMERCIAL BANK FINANCING FOR TWO NEW 747'S AND ONE 747 REPLACEMENT AIRCRAFT. THE ARGENTINES ARE VIRTUALLY SURE TO SEE DENIAL OF THIS FINANCING AS A USG MANEUVER TO PREVENT THEM FROM TAKING RECIPROCAL ADVANTAGE OF THE RIGHTS THEY RELUCTANTLY GRANTED TO PAN AM AND BRANIFF TO USE 747'S OR SIMILAR AIRCRAFT. SERVING BUENOS AIRES. THE RIVALRY BETWEEN THE AIRLINES, WHICH AT ONE POINT HALTED AIR SERVICE BETWEEN TH

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TWO COUNTRIES BY NATIONAL LINES, WILL BE SEEN AS THE CAUSE, WITH HUMAN RIGHTS ONLY THE PRETEXT TO PRESERVE AN ADVANTAGE FOR OUR CARRIERS. AFTER LONG AND TEDIOUS NEGOTIATIONS BETWEEN EMBASSY AND GOA, THE 1977 US-ARGENTINA BILATERAL

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CIVIL AVIATION AGREEMENT WAS FINALLY CONSUMMATED. PRIOR TO THIS AGREEMENT, RELATIONS BETWEEN US AIRLINES AND GOA CIVIL AVIATION AGENCY WERE SEVERELY STRAINED. THE AGREEMENT WAS DEFINITELY CONSIDERED A VICTORY FOR US CARRIERS. IT IS FEARED THAT NEGATIVE RESULTS BY EXIM BANK MIGHT PRECIPITATE HARASSMENT BY GOA OF AMERICAN CARRIERS.

3. THE ENTEL TELEPHONE EXPANSION PROJECT, A MAJOR EXPORT OPPORTUNITY WHICH I PERSONALLY HAVE PROMOTED, WOULD ALSO FALL VICTIM TO THE HOLDING STRATEGY. GENERAL TELEPHONE AND ELECTRONICS IS SEEKING EXIM BANK SUPPORT IN ITS EFFORT TO WIN THE INITIAL \$200 MILLION CONTRACT, WHICH WOULD ONLY BE THE START IN A LONG-TERM PROGRAM AMOUNTING TO ALMOST A BILLION DOLLARS. OUR COMPETITION FROM THE JAPANESE, THE GERMANS, AND THE SWEDES CAN PROBABLY COUNT ON OFFICIAL CREDIT OR GUARANTEE ASSISTANCE, AND IF THE CONTRACT GOES TO ONE OF THEM OUR GESTURE IN REMOVING GTE FROM THE FIELD WILL GO UNNOTICED IN ARGENTINA.

4. TO THESE PROJECTS CAN BE ADDED THE REPORTEDLY GOOD POSSIBILITY THAT ALLIS CHALMERS/WESTINGHOUSE MIGHT, WITH EXIM BANK HELP, WIN A CONTRACT FOR THE SALE OF POWER GENERATION EQUIPMENT FOR THE GIANT YACIRETA APIPE HYDRO-ELECTRIC PROJECT. OUR MAJOR COMPETITORS ARE THE SOVIETS. ONLY AN EXPORT-IMPORT BANK LETTER OF INTENT WOULD SEEM TO BE NEEDED AT THIS STAGE TO KEEP OUR FIRMS IN THE RUNNING. TO DENY IT ON HUMAN RIGHTS RATHER THAN ON ECONOMIC GROUNDS WOULD BE A FUTILE GESTURE, OF NO VALUE TO THE CAUSE OF HUMAN RIGHTS IN ARGENTINA.

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5. JUST THE EXAMPLES MENTIONED TOTAL ALMOST THREE-QUARTERS OF A BILLION DOLLARS, WITH DELIVERIES SPREAD OUT OVER A PERIOD OF YEARS WHEN THE HUMAN RIGHTS PROBLEM HERE MAY WELL HAVE DISAPPEARED. BUT INITIAL NEGOTIATIONS ARE TAKING PLACE NOW. EXCEPT PERHAPS IN THE CASE OF THE 747 AIRCRAFT, WE ARE NOT DENYING ANYTHING THAT OUR COMPETITORS ARE NOT ABLE AND ANXIOUS TO SELL. WE ARE, HOWEVER, DENYING A VERY SIGNIFICANT MARKET TO AMERICAN INDUSTRY. I RECOMMEND STRONGLY THEREFORE THAT THE DEPARTMENT AND THE EXPORT-IMPORT BANK RECONSIDER THIS REPORTED DECISION TO WITHHOLD SUPPORT TO U.S. SUPPLIERS ON HUMAN RIGHTS GROUNDS.

CASTRO

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